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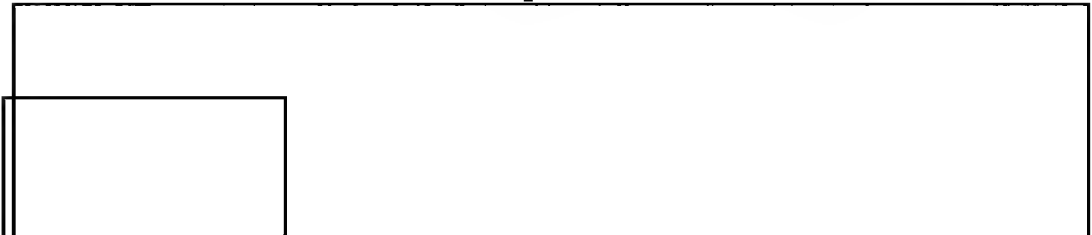
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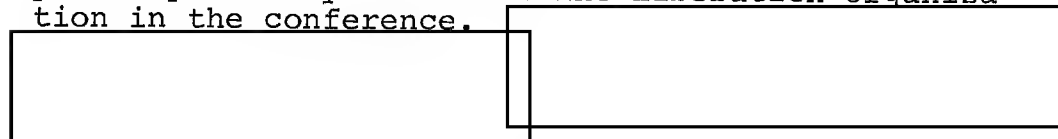
FEDAYEEN: The hijacking of the Lufthansa aircraft from Rome airport was apparently masterminded by a dissident Fatah - Black September official resident in Tripoli, Libya. The official, Ahmad Abd al-Ghaffur, is a Fatah member but a critic of Fatah chief Yasir Arafat. Abd al-Ghaffur reportedly has some connection with Libyan intelligence, although there is no evidence of Libyan complicity in this operation.

The hijackers' demand for the release by the Greek Government of two imprisoned Palestinians who staged a terrorist attack at Athens airport last August suggests that the hijackers may be operating under the guidance of Abd al-Ghaffur, who reportedly planned and supervised the Athens inci-



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A principal purpose of the current hijacking apparently was to disrupt the peace conference in Geneva. Abd al-Ghaffur in early 1973 reportedly agreed to coordinate his operations with officials of the Popular Front for the Liberation of Palestine, whose head, George Habbash, has publicly opposed participation by the Palestine Liberation Organization in the conference.



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ARAB STATES - ISRAEL: Syria's announcement yesterday that it would not participate in the Geneva conference which begins Friday reflected the ingrained convictions of important elements in Syria that productive negotiations with Israel are still not possible.

By casting doubt that Arab objectives can be realized early through negotiation, the announcement heightened the chances of renewed hostilities on the Golan front,

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the possibility exists that Egypt and Syria might advance their timetable for putting direct military pressure on Israel to hasten its withdrawal from Arab territory.

Egypt's reaction to the announcement, however, held out the hope that the Syrians could be persuaded to come to Geneva later, if sufficient progress could be made to dispel their doubts. In an official statement, Cairo expressed an understanding of the "fear and suspicion that have forced" Syria not to attend the conference. The statement, nevertheless, emphasized that significant progress during the initial meetings in Geneva could open the way for Syria and other Arabs to contribute positively to the peace effort. The message warned, however, that procrastination and stalling by the Israelis would force the Arabs to resume their armed struggle.

According to press reports from Geneva, Israeli officials reaffirmed Israel's agreement to attend the conference, despite Syria's decision to stay away.

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Despite Egyptian nervousness, there were few cease-fire violations noted yesterday. UN observers reported anti-aircraft firing near Fayid on the west bank of the Great Bitter Lake. Several heavy explosions were heard north of Suez City. According to Jerusalem Domestic Service, there were no incidents of cease-fire violations on the Syrian front.

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CARIBBEAN OIL: US imports of petroleum products from the major Caribbean refineries, which amounted to 1.3 million barrels per day (b/d) during the first six months of 1973, may soon be reduced as much as 18 percent. Embargoes by Saudi Arabia and Kuwait of crude oil shipments to all major refineries in the area, a Libyan embargo of the Virgin Islands refinery, and a 22-percent cutback in Libyan shipments to refineries in the Bahamas, Netherlands Antilles, and Trinidad--all effective in early November--stand to reduce the inflow of Arab crude oil by over 400,000 b/d, or about 80 percent.

Output of the Caribbean refineries is only beginning to reflect the Arab cutbacks. The refinery in the Bahamas was operating at full capacity as of November 26. Moreover, crude oil processed at Trinidad refineries as of December 11 had dropped by only 65,000 b/d, compared with the expected 210,000 drop in Arab supplies. While the refineries probably are drawing down stocks, the maintenance of output may also indicate substantial diversion of Venezuelan, Ecuadorian, and possibly other crude oil by the oil companies.

The Caribbean refineries depend on imports for all their crude, except for those in Trinidad which obtain about 20 percent domestically. Normally, about 40 percent of the crude supply comes from Venezuela and approximately 25 percent from Libya, Saudi Arabia, and Kuwait. In 1972, the refineries, with a combined capacity of about 2 million b/d, processed about 1.8 million b/d of crude and exported 1.5 million b/d of refined products outside the Caribbean area. The US received about 80 percent of the exports, including almost all exports of refineries in the Virgin Islands and the Bahamas.

MBFR: The opening round of negotiations on force reductions in Europe was largely a probing exercise, but it isolated themes the Soviets will stress in the future and indicated areas of potential conflict and compromise.

Moscow and its allies placed particular emphasis on including both foreign and national forces in all stages of reductions, in contrast to NATO's concept of two distinct phases. Initially, the Soviets seemed concerned that if US and Soviet forces were reduced first, the West German Army would be disproportionately strong. Later, West European talk about some form of defense cooperation raised the specter of West German forces in a unified West European defense force. The Soviets spent considerable effort probing Western intentions on this issue. In their private statements, however, the Soviets suggested that they might be amenable to a compromise in which US and Soviet forces were reduced first, provided there was a firm commitment by the West to reduce national forces in a second phase.

As expected, the Soviets argued vigorously against the Western concept of asymmetric reductions which would result in relatively greater Warsaw Pact reductions to reach a "common ceiling" with NATO. The Soviets used a variety of arguments against asymmetry, but emphasized the idea that Western inferiority in some areas is compensated by superiority in others, so that an overall balance exists. Thus, while the NATO countries stressed Warsaw Pact superiority in ground forces and armor, the latter strove to include air forces and nuclear weapons in a total reduction package. The Soviets even hinted that they might accept a common ceiling in which air and nuclear forces are included, but this would not be asymmetry as understood by NATO.

(continued)

The Soviets and their allies took a generally serious approach at the talks and, in fact, pressed to negotiate a reduction agreement as quickly as possible--on their terms. In formal plenary sessions, the Soviets displayed little inclination to compromise, and closed the round on a note of rigidity, but they demonstrated a certain amount of flexibility during informal bilateral meetings. The Soviets want some concrete results to show by 1975, as contained in their proposal and affirmed publicly by General Secretary Brezhnev.

The Western allies maintained a united front during the round, but growing European concern over the possible effects of MBFR on future European defense cooperation may make it more difficult to maintain unity. The EC delegates in Vienna have now drawn up a list of what a force reduction agreement must avoid in order not to interfere with defense cooperation. The West German representative in Vienna fears that the defense cooperation issue could cause his government to move closer to the strongly negative British attitude toward the MBFR negotiations. The US delegation has expressed concern that this issue could seriously slow the negotiations when they resume next month.

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USSR: Soyuz 13, the spacecraft launched yesterday from Tyuratam with two cosmonauts aboard, appears to be operating normally.

According to TASS, the purposes of the flight are to perform scientific observations and to continue testing the spacecraft. Although the Soviets currently have an unmanned Soyuz in orbit, its orbit is significantly different from that of Soyuz 13, indicating that no rendezvous and docking operations are planned.

The Soviets have conducted one other manned space flight this year. Soyuz 12, launched from Tyuratam on September 27, carried two cosmonauts and remained in orbit two days.

Since the fatal Soyuz 11 accident in June 1971, the Soviets have undertaken two manned and three unmanned Soyuz missions.

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Because of the problems encountered in their manned space program, the Soviets apparently are carefully preparing for the joint Apollo-Soyuz mission scheduled for 1975. One objective of the current flight may be to test new components added to the spacecraft for this joint mission.

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JAPAN: Tokyo has approved additional measures to slow the loss of official holdings of foreign exchange following the record \$1.7-billion balance-of-payments deficit for November. In the most significant change, Japanese commercial banks no longer have to hold dollars in a specified proportion to yen held in foreign-owned accounts. This will enable the banks to sell some \$700 million on the Tokyo foreign exchange market. The banks probably will be willing to accept greater accumulations of yen holdings by foreigners because they will no longer be required to maintain essentially idle dollar holdings.

The Bank of Japan also withdrew \$130 million from a fund in commercial banks used to finance imports. The government will no longer provide loans to finance the purchase of overseas real estate, and it has placed limits on the amount of money Japanese travelers can take out of the country.

Although these measures are likely to alleviate some of the strain on official foreign exchange holdings, they do not directly affect long-term capital outflows, the basic cause of the balance-of-payments deficit. These outflows total \$8.8 billion so far this year and the central bank governor hinted that restrictions on them are a possibility. [REDACTED]

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DENMARK: The minority government formed earlier this week by Moderate Liberal leader Poul Hartling has very uncertain prospects in view of Denmark's fragmented parliament. The only support Hartling can rely on, in addition to his own party's 22 parliamentary votes, are the 14 votes of the Center Democrats and the seven votes of the Christian People's Party--a total of 43 in the 179-seat parliament.

Despite the minority status of the new government, it will initially enjoy a relatively broad base of parliamentary support. On many issues, Hartling expects to have the "cooperation" of Social Democrats, the Radical Liberals, and the Conservatives, giving the government a total of 125 parliamentary votes. The Moderate Liberals refer to the government's support in parliament as a "negative majority," i.e., the opposition does not have a majority against it.

Hartling probably will be able to limp along until a deeply divisive issue confronts the government. For the short term, the new government probably will be content to attempt only moderate domestic reforms to slow inflation and improve the tax-rate structure in favor of middle-class workers. Little innovation is likely in foreign policy, particularly with regard to relations with NATO and the EC.

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Guyana: Prime Minister Burnham will open discussions with the Reynolds Company soon to determine the status of its bauxite operations. He has not proposed outright nationalization but wants some degree of control, as well as assurances on future levels of production and capital investment.

[REDACTED]

Yugoslavia - South Asia: According to Bombay radio, President Tito will attend India's Republic Day celebration on January 26, and then will visit Bangladesh and Nepal.

[REDACTED]

El Salvador - Honduras: Negotiators have failed to draft a peace treaty by December 15, the deadline mutually agreed upon, and suspicion of each other's intentions has caused both countries to step up military preparedness. Other Central American leaders have been unable to arrange a meeting between the two presidents, but meetings between senior officials of El Salvador and Honduras have eased tensions somewhat.

[REDACTED]

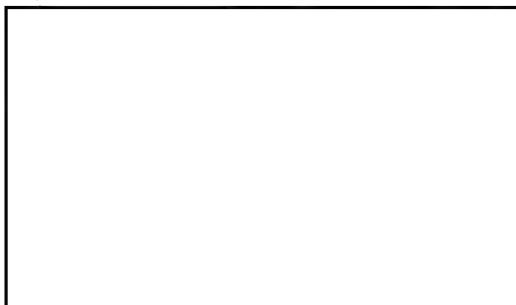
**These items were prepared by CIA without consultation with the Departments of State and Defense.*

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